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Report Highlights:

Malaysia's economy is stable even though GDP for 2001 is forecasted to decline 2%. The decline is due to external development and GDP for 2002 is expected to grow by 5%. The Malaysian market for imported food and beverages continues to be liberalized, with tariffs ranging from 0-20%. New retail outlets, which are good venues for imported products, are continuing to open, providing better access to consumers.

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SECTION I. MARKET OVERVIEW

Malaysia, with a population of 23.2 million people, is one of the most developed nations in Southeast Asia. About 61 percent of its population make up the middle to upper income group of consumers. Its economy has a firm foundation that comprised of strong manufacturing, service and agricultural sectors. However, Malaysia has been and continues to be affected by the slowdown in the world economy and the uncertainties caused by the September 11 attacks on the U.S. A 2% decline in GDP was projected recently, down from 6% anticipate earlier this year. Malaysia's GNP per capita is marginally lower at US\$3,509 for 2001 compared to US\$3,529 in 2000. In terms of purchasing power parity, however, per capita income is expected to increase by 1.3% to US\$8,977 from US\$8,831 in 2000 after taking into account lower domestic inflation. The Malaysian government has instituted several regulatory measures through its many price stabilization programs including controlling the prices of essential food items to curb inflation.

Malaysia is politically and economically stable and open to foreign trade. Transportation, communications, banking and health services are modern and efficient.

The Malaysian food and beverage market is becoming increasingly sophisticated, supplied by both local and imported products. The strong economic growth in the late 80's and early 90's contributed to major changes in consumer purchases and consumption patterns. Malaysians living in urban areas are relatively brand-conscious, and they prefer to shop in stores which offer them convenience and a wide selection of products.

However, with uncertainties surrounding the world economically and politically, consumers are reluctant to spend at this point. Retailers believe that imported products will be momentarily affected with changes in consumers' purchasing habits due to uncertainties in the economy. Malaysia's tourist arrivals have fallen by 20 to 30 percent since the September 11 attack. Trade contacts in the retail and HRI lamented that sales of food products have been adversely affected by the decrease in tourism, as well as in the number of business travelers.

Advantages and Challenges for U.S. Suppliers

Advantages	Challenges
Malaysia's economy is stable even though GDP for 2001 is forecasted down at 2%. The decline is due to external development and GDP for 2002 is expected to grow by 4-5%.	The Muslim population does not consume non-halal products. This prohibits the country's demand for non-halal products from foreign sources.
More than 36% of the population is less than 15 years of age. The majority of them are expected to participate in tomorrow's consumer market, or are already participating today.	Malaysian consumers are price-sensitive. US products are not always price-competitive when compared to local products and imports from other neighboring countries.

The Malaysian market for imported food and beverages continues to be liberalized. Tariffs are low for most products, ranging from 0-20%.	US products face strong competition from Australia, New Zealand and China.
New retail outlets are continuing to open, providing better access to consumers on a nationwide basis. These businesses are looking for new imported products for their retail outlets.	Strong local brands which have foreign origins, e.g., Nestle, Walls ice-cream, Coca-Cola command strong positions in their market segments.
A wide variety of foreign products already "fit" into local food culture, e.g., temperate fruits and vegetables, infant formula, soft drinks and ice-cream.	Malaysia's consumers in the urban areas are well-exposed to foreign products and understand product quality based on their comparisons with equivalent products.

SECTION II. EXPORTER BUSINESS TIPS

Business Customs

Malaysians are accustomed to doing business with foreigners and readily accommodate foreign business manners. Younger businessmen are prepared to start new business relationships with foreign companies without the advantage of a personal meeting. These businessmen also prefer to communicate with foreign suppliers electronically.

Prior to initiating any export sales to Malaysia, it would be advantageous to conduct a market survey with particular reference to the competitive environment. It is common for foreign exporters to appoint a local sales agent / importer to distribute their goods, expedite clearance of goods from ports and draw on existing networks of wholesalers and retailers. Regular visits by U.S. exporters to the market are also critical to enhance business relationships.

General Consumer Tastes and Preferences

Malaysia is a multiracial society consisting of three major races. The Malays account for 60% of the population, with Islam as the official religion; slightly more than 30% of Malaysians are Chinese who may be Buddhist or Christian; Indians form the remaining 10% of the population and they are largely Hindus.

Lunch and dinner meals consist mainly of rice together with two or three meats/fish and vegetable dishes that are prepared according to the styles and tradition of various communities. The Malays and Indians prepare their dishes with hot spices while Chinese prefer to stir-fry. Religious affiliation affects food consumption in Malaysia. Muslims do not eat pork, and only eat meat products that have been certified *halal*, and beef is not eaten by many Buddhists and Hindus. Thus, *halal* chicken meat is popular among all consumers.

Food Standards and Regulations

Malaysian health and food labeling requirements are fairly liberal. The labeling requirements specify that imported and domestically produced processed food items must be labeled in English or Bahasa Malaysia. Labels must contain the following information:

- An appropriate description of the product;
- A list of ingredients in descending order of proportion by weight;
- A statement as to the presence of such animal products (beef, pork, lard, gelatins, etc.,) If the item contains any animal product
- A statement as to the presence of alcohol If the item contains any alcohol,
- The minimum net weight of the product; in the case of a product packed in liquid, the minimum drained weight of the food;
- The name and address of the manufacturer;
- The name and address of the importer (this can be affixed at the time of import);
- A statement of shelf life or expiry dates.

Certain food additives, preservatives, and artificial colorings approved for use in the United States may not be permitted in Malaysia. In addition, products with labels which include phrases such as “Contains No Palm Oil” or “Contains No Tropical Oils” will not be allowed for import. (Please see FAIRS Report (MY0036) for more detailed information on the labeling requirements and allowable ingredients and preservatives for packaged foods sold in retail outlets.)

General Import and Inspection Procedures

All food consignments are subject to random checking and sampling at 28 entry points all over the country to ensure food items imported into the country are safe and comply with the prescribed standards and regulations. All meat, poultry and dairy product shipments must be accompanied by appropriate USDA documentation. All beef, poultry and egg products must be certified *halal* and the products must originate from slaughterhouses or facilities which have been inspected and approved by the Malaysian veterinary and religious authorities. (It is important to know that U.S. plants must list and show the products they intend to export to Malaysia during the inspection visits by the Malaysian veterinary and religious authority; as only products that are certified *halal* during the inspection visits are allowed to be imported into Malaysia.) Other food items which contain any animal products must be clearly marked.

Documentation and other formalities with authorities at entry points are normally handled by international freight forwarders. Provided all necessary documents are in order, no problems or delays should occur in clearance of goods. (Please see FAIRS Report MY0036 for more detailed information on import procedures).

SECTION III. MARKET SECTOR STRUCTURE AND TRENDS

Consumer-oriented Foods and Beverages & Edible Fishery Products

In 2000, the total import of consumer-oriented products to Malaysia was valued at US\$1.4 billion. Total import from the United States was worth US\$142 million, representing 10% of the market share.

Australia and New Zealand are the major competitors for this category in the Malaysian market.

Temperate fresh fruits and vegetables, beef, dairy products, wine from these countries were able to garner top placings due to competitive prices, lower freight costs and shorter shipping times. China is also a strong contender in the fresh fruits segment.

While Malaysia is a producer of tropical fruits and fresh vegetables, it also imports these items from Thailand and Indonesia to meet the demand of Malaysian households. Processed foods from these countries such as canned fruits, fruit juices and dried fruits are easily available in retail outlets.

Malaysia is self-sufficient in pork and poultry (meat/eggs) production. Chicken parts and chicken wings are imported periodically to meet the demand from the local processing industry and consumers. Major suppliers of chicken parts and chicken wings are USA and Denmark.

Malaysia is a net importer of seafood products with an annual import estimated at US\$ 267 million in 2000. While some supply of fresh and frozen fish comes the East Coast of Peninsular Malaysia, Malaysia imports a substantial amount of fish and seafood products from Thailand (US\$76 million) and Indonesia (\$54 million).

Distribution for consumer-ready food products

Private companies are the major entities in the food distribution system. Food importers and commissioned agents place orders with foreign suppliers and distribute to supermarkets/grocery stores and hotels in the cities and to sundry shops in the rural areas. Several of the larger supermarket chains are beginning to import directly from overseas.

Most products from the United States enter through the ports of Klang, Penang and Johor (Port of Tanjung Pelepas). The transshipment of food products through Singapore has declined with improvements in shipping facilities offered by major ports in Malaysia. The newly developed high-tech Westport, situated in Port Klang has further enhanced Malaysia as a shipping hub.

Malaysia has 7 international airports including the newly opened Kuala Lumpur International Airport (KLIA) one of the biggest and modern airports in the region. Mainly the others, while serving international markets, are actually quite small. Malaysia's highway network is the backbone of the country's transport system as 90% of passenger and cargo movements are by roads. Almost every town in Malaysia is linked by roads, and products move efficiently between cities and rural areas. The road system is complemented by railway lines which connect the north, south, west and east coasts of Peninsular Malaysia. Much of the product moves throughout the country, however, in non-refrigerated trucks.

Food Retail Sector

Modern retail stores such as supermarkets and hypermarkets command around 20% of the total retail sales. These stores are mainly located in the major urban centres and are growing in numbers. An increasing number of Malaysians are shopping at these stores, particularly the affluent middle to upper income group of consumers, because these large retail stores offer a wide range of sophisticated food and beverage products. Their products are high quality, branded goods sourced from both local and overseas suppliers.

These modern retail stores are also introducing new and additional services within their stores such as in-store bakeries, café/food service areas and prepared meals to attract more customers to their stores. Trade sources comment that, as a result of this growing trend in shopping at supermarkets and hypermarkets, more such modern retail stores are expected to open in future in Malaysia.

The majority of western and Japanese expatriates shop at supermarkets. Expatriates generally buy imported products and only choose local alternatives if imports are not available. In contrast, local customers prefer to buy local brands which are familiar to them except where local alternatives are not available. However, Malaysians who have been abroad, such as business persons who have lived abroad or students who have studied abroad, tend to prefer imported products to local products, particularly brands that they have been exposed to when living abroad.

The Table below provides information on the major retailers involved in the operation of supermarkets and hypermarkets.

Retailer Name and Outlet Type	Ownership	Sales (US\$ million)	No. of Outlets	Location	Purchasing Agent Type
Tops Retail Malaysia Sdn Bhd, supermarket	Royal Ahold, Netherlands	96 (1999)	40	Nationwide	Direct, Agents
Giant TMC Bhd, Supermarket and hypermarket	Dairy Farm International, Hong Kong	250 (2000)	12	Nationwide (Peninsula Malaysia)	Direct, Importer, distributor
The Store Corporation Bhd, supermarket and department store	Listed on the KLSE	254 (2000)	30	Nationwide (Peninsula Malaysia)	Distributor
Carrefour Malaysia Sdn Bhd, hypermarket	French	148 (1999)	5	Key urban centres (Peninsula Malaysia)	Direct, distributor
Ocean Capital Bhd, department store, supermarket and property development	Public listed	50 (1999)	17	Nationwide (Peninsula Malaysia)	Importers, distributors
Jaya Jusco Stores, superstore chain and shopping centre operation	Listed on the KLSE	212 (2000 retail sales) Supermarkets sales grew by 15% in 2000.	7	Key urban centres (Peninsula Malaysia)	Importers, distributors. Direct for some Japanese products.

Besides the major supermarket chains, Malaysia's traditional stores include provision shops,

grocery shops, wet markets, mini markets and other similar retail outlets which sell a limited range of food and beverage products on a small scale. They generally sell local products and brands with low to no presence for imported products, depending on the target customers and the location of the store.

These types of traditional retail outlets are commonly found throughout Malaysia, in both urban and rural areas. The majority of Malaysian consumers purchase their food and beverage products from such traditional stores. The customers range from low income to high income groups who generally buy small quantities of food and beverage products at each visit. They visit these stores on a very regular basis each week.

Food Service Sector

The food service sector in Malaysia is highly fragmented with a large number of small to medium sized players in the market. According to trade sources, over 80% of the food service establishments are made up of small family-owned businesses or individual proprietors. Malaysia has a long tradition of eating at an taking away from these mom-and-pop type food stalls. Rapid urbanization and changing lifestyles have brought changes to local eating habits. Demand for instant and more sophisticated convenience foods is on the rise as working women have little time to prepare their family meals. Malaysian consumers, particularly those in the 20-40 age group who can afford and are willing to pay for the price of convenience, have a preference for semi-prepared foods and/or takeaway meals. This growing trend has brought about a new era of food retailing in the country. Supermarket and hypermarket stores now have a section of takeaway foods where consumers will just pick what they want and pack them into meal boxes to take away.

Besides the usual hawker stalls / food stalls located in residential and urban areas, Western fast food chains like McDonald's, Kentucky Fried Chicken, Burger King, Pizza Hut, etc. are located strategically in large shopping malls all over Malaysia. Local franchised chains such as Marrybrown, Sugar Bun and Dave's Deli, which offer similar menus as the KFC and McDonald's outlets, are also expanding rapidly. Competition among these quick service restaurants (QSRs) is intense with seventy percent of customers who patronize quick service restaurants being students in the "teen" market.

Food Processing Sector

Malaysia has a sizeable food manufacturing industry. Trade sources estimate the industry's total output in excess of US\$ 9 billion. In 2000, the industry exported around US\$1.8 billion of processed products. The Table below shows the production of major manufactured food products in Malaysia.

Production of Major Manufactured Food and Beverage Products (Tonnes/Litres)					
	1996	1997	1998	1999	2000
Sweetened condensed milk	190,607	174,673	154,096	165,119	156,984
Canned fish/seafood	33,895	34,598	35,459	34,754	36,119

Refined sugar	1,116,515	1,155,320	1,072,750	1,225,842	1,246,174
Biscuits	114,878	107,017	109,306	122,380	119,421
Soft drinks/carbonated drinks	504,763	513,347	418,362	351,317	392,210
Note: \$ value of production was not published. Source: Department of Statistics					

Investments in food manufacturing have increased by 141.4 percent, in which the investment projects had gone up from 29 in 1999 to 70 in 2000. Domestic investments in the food and beverage sector grew from US\$34 million in 1999 to US\$127 million in 2000 and foreign investments soared from US\$68 million to US\$141 million.

Major processed food items for exports included bakery products; baked beans; canned curry chicken and beef; canned tuna fish; sardines; instant noodles; canned tropical fruits; fruit juices; milk drinks; soya products; chilli and tomato sauces; biscuits; breakfast cereals; chocolate products; snack foods such as chips and candies; and gourmet foods. These products are produced in conformation with *halal* requirements which are acceptable by Muslim consumers worldwide.

Various trade organizations such as the Federation of Malaysian Manufactures and the government agency, Malaysia External Trade Development Corporation (MATRADE) are aggressive in promoting, assisting and developing Malaysia's food industry for the export markets. Marketing seminars, workshops and training programs are routinely organized to improve international marketing skills and assist food processors in finding new markets overseas. The Malaysian Government has extended certain facilities such as the Export Credit Refinancing to marketing and exporting entities, including trading houses, to assist small and medium enterprises to market and distribute their products overseas.

Participation in international food shows by Malaysian food processors has also brought about universal recognition of Malaysian ethnic foods such as "satay" (barbecue meat and sauce) and "roti canai" (pancakes). Local companies are encouraged to use franchising as a tool to expand their business. The expansion of the domestic food processing sector should create some market opportunities for U.S. ingredients like spices and flavorings; dried fruit and nuts; dried beans, peas, and lentils; fruit juice concentrates; and beverages bases.

SECTION IV. BEST HIGH-VALUE PRODUCT PROSPECTS

- Fresh fruits and vegetables
- Snack Foods
- Halal meat and preparations
- Tree nuts: almonds and pistachios
- Processed Fruit and vegetables
- Wine
- Seafood

- Miscellaneous food preparations

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

If you have any questions or comments regarding this report or need assistance exporting high value products to Malaysia, please contact the Office of Agricultural Affairs at the U.S. Embassy in Kuala Lumpur at the following address:

Office of the Agricultural Affairs
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APO AP 96535-8152
Tel : (011-60-3) 2168-4985/2168-4884
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For more information on exporting U.S. agricultural products to other countries, please visit the Foreign Agricultural Service homepage: <http://www.fas.usda.gov>.

Malaysian Regulatory Agencies / Other Trade Contacts

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A. KEY TRADE & DEMOGRAPHIC INFORMATION

Agricultural Imports From All Countries (US\$Mil) / U.S. Market Share (%)	4,425 / 11%
Consumer Food Imports From All Countries (US\$Mil) / U.S. Market Share (%)	1,412 / 10%
Edible Fishery Imports From All Countries (US\$Mil) / U.S. Market Share (%)	267 / 2%
Total Population (Millions) / Annual Growth Rate (%)	23.2/ 2.4%
Urban Population (Millions) / Annual Growth Rate (%)	12.2 / 4.5%
Number of Major Metropolitan Areas	9
Size of Middle Class (Millions) / Growth Rate (%) (estimate)	15 / 2.5
Per Capita Gross Domestic Product (US Dollars)	3,529
Unemployment Rate (%)	3.0%
Per Capita Food Expenditures (U.S. Dollars)	1,000
Percent of Female Population Employed	44.2%
Exchange rate (US\$1 = X.X local currency)	US\$ = 3.8RM